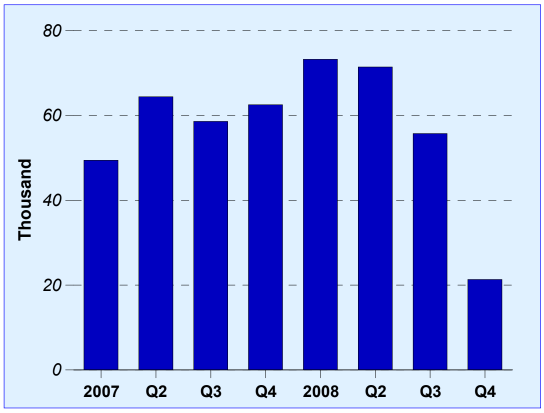
2.1 Labour Market

The labour market deteriorated in Q4 2008 …

Following record employment gains in H1 2008, the labour market softened in H2. Notably, job creation slowed to 21,300 in Q4, less than half the number of jobs created in Q3. (Chart 2.1) For the whole of 2008, total employment expanded by 221,600, slightly lower than the increase of 234,900 in 2007.

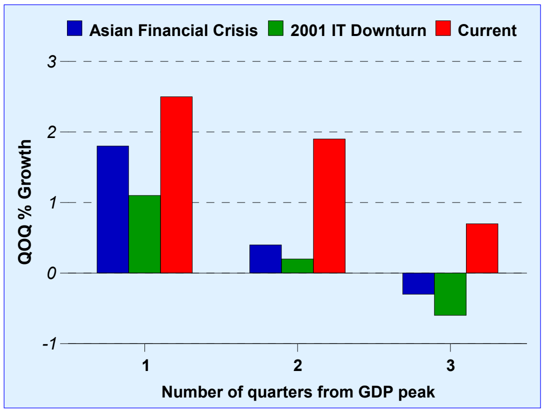
Chart 2.1
Total Employment Changes



… although the adjustment has been slower than past recessions thus far.

The adjustment in the labour market thus far has been slower compared to past recessions. During the Asian Financial Crisis in 1998 and the global IT downturn in 2001, employment began to fall three quarters after the peak in GDP. In comparison, in the current economic cycle which peaked in Q1 2008, employment growth remained positive even in Q4. (Chart 2.2)

Chart 2.2
Employment Growth During Recessions

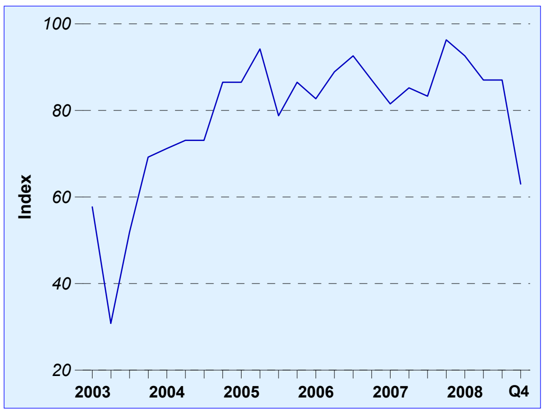


The greater resilience of the labour market compared with past economic downturns could be attributed to the construction and services sectors. Reflecting the strong pipeline of projects, construction employment continued to expand by 10,700 in Q4 2008, although this was some 40% lower than the average quarterly gains in the first three quarters of 2008. Meanwhile, the services sector created 17,300 jobs in Q4 2008, largely supported by hiring in hotels & restaurants and retail trade due to the year-end festive period, as well as strong recruitment in community, social & personal (CSP) services.

Nevertheless, there were pockets of weakness in other areas of the labour market. In particular, net employment in manufacturing fell by 7,000 in Q4 2008, the first contraction since Q3 2003. The electronics industry further reduced headcount by 3,400, after cutting about 3,800 jobs in earlier quarters. Even non-electronics, the key contributor to job growth in H1 2008, registered net employment losses in Q4.

With fewer industries adding headcount in Q4, the Employment Diffusion Index plummeted to 63, the lowest since 2003. [1] (Chart 2.3)

Chart 2.3
Employment Diffusion Index



Source: EPD, MAS estimates

[1] The index is equal to 100 when all industries are increasing employment and zero when all are decreasing employment. A reading of 50 indicates an equal number of industries are increasing and decreasing employment.

Retrenchments rose, with workers in manufacturing and financial services worst hit.

In tandem with the weakening labour market, retrenchments more than tripled to 7,500 in Q4 from a quarter earlier. (Chart 2.4) Apart from manufacturing, which saw retrenchments more than double, the services sector also displaced a much larger number of workers, contributing almost half of total retrenchments. Unsurprisingly, layoffs in financial services sharply increased amidst the global financial turmoil.

A greater proportion of PMETs was retrenched this time round.

An important characteristic of the current downturn is that professionals, managers, executives and technicians (PMETs) accounted for the largest group of retrenched workers (48%) in Q4 2008. This reflected the significant number of service workers laid off and the higher proportion of PMETs in services. In contrast, during the Asian Financial Crisis, only 20% of PMETs were laid off and a majority (62%) of the retrenchment was accounted for by production & related workers as the recession was accompanied by the restructuring of the manufacturing sector, which led to the closure of Western Digital and Seagate's lower end operations.

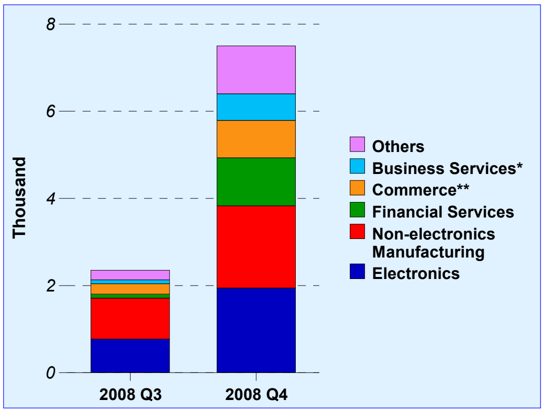
More workers had their contracts terminated prematurely or were put on short work-week …

The current downturn has also led to other adjustments in the labour market. For example, the number of workers made redundant due to early termination of contracts more than doubled in Q4 2008. There was also a surge in the number of workers put on short work-week, from 430 in Q3 to 6,630 in Q4. Most of these workers were from manufacturing.

… and there were fewer job vacancies amidst a deteriorating labour market.

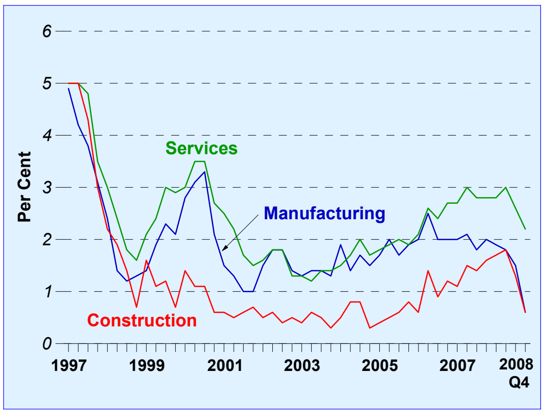
The deterioration in the labour market has led to a decline in job vacancy rates across all key sectors. The vacancy rate in manufacturing dropped substantially from 1.5% in Q3 2008 to 0.6% in Q4, which was lower than that during the 1998 and 2001 recessions. (Chart 2.5) Financial services' vacancy rate also fell to a

Chart 2.4
Retrenchments by Industry



* Business Services comprise Real Estate & Leasing Services, Professional Services and Administrative & Support Services.
** Commerce comprises Wholesale & Retail Trade and Hotels & Restaurants.

Chart 2.5
Job Vacancy Rate



level close to the record low of the 1998 recession, dragging overall services vacancies down.

In comparison, the vacancy rate in CSP only edged down slightly from Q3 2008 and remains relatively high compared to H1 following a step-up in hiring in the public administration & education sectors.

The headline unemployment rate rose …

Given the weak labour market, the headline unemployment rate edged up from 2.2% in September to 2.5% in December 2008. For residents, it rose from 3.3% to 3.7%. EPD estimates show that the increase in the unemployment rate largely reflected the slowdown in employment growth even though the overall labour force expanded more slowly. In contrast, the rise in the unemployment rate in H1 2008 was due to the spike in labour force growth.[2] (Chart 2.6)

On the back of higher unemployment and fewer vacancies, the seasonally adjusted ratio of job vacancies to unemployed persons fell to a three-year low of 0.51 in December 2008. This implied that there were 51 openings for every 100 jobseekers, down from 81 in September. (Chart 2.7)

… and overall nominal wage growth slowed considerably in Q4.

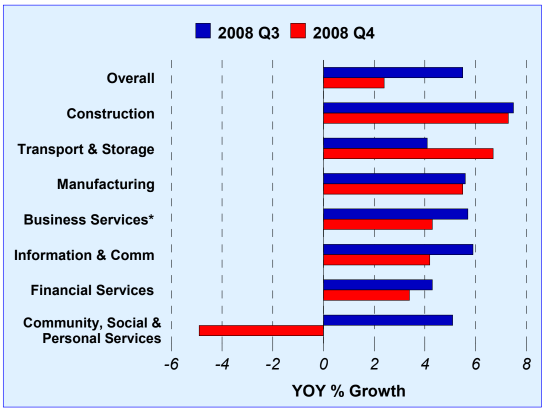
Correspondingly, overall nominal wage growth eased to 2.4% y-o-y in Q4 2008, more than 3% points lower than that in Q3. This mainly reflected smaller wage increments in the services sector. Notably, earnings growth in financial services continued to moderate from a high of 8.9% in Q1 2008 to 3.4% in Q4, as costs were trimmed amidst the financial crisis. Furthermore, wages in CSP fell by 4.9% in Q4 2008, a turnaround from the increase of 5.1% in Q3, mostly due to the cut in bonuses in the public administration & defence sector. In comparison, manufacturing and construction wages grew at a rate largely similar to that in the preceding quarter. (Chart 2.8)

Chart 2.6
Employment Growth and Labour Force Growth

* EPD, MAS estimates

Chart 2.7
Ratio of Job Vacancies to Unemployed Persons

Chart 2.8
Nominal Wage Growth by Industry



* Business Services comprise Real Estate & Leasing Services, Professional Services and Administrative & Support Services.

[2] Refer to the October 2008 issue of the *Review* for details.

2.2 Inflation

CPI inflation has fallen sharply in recent months …

Singapore experienced a relatively high headline CPI inflation rate of 6.5% in 2008. However, there was a marked difference between the first and second half of the year. In H1, the economy was buffeted by escalating global oil and food prices, as well as higher domestic business costs after several years of strong growth. These factors caused headline CPI inflation to rise steadily to a peak of 7.5% y-o-y in Q2. (Chart 2.9)

However, after July, inflation started to moderate as the impact of the GST hike ceased. Subsequently, price pressures declined more sharply with the collapse in global oil prices. Other drivers of inflation from earlier in the year also eased as the economy slowed. (Chart 2.10) By Q1 2009, CPI inflation had fallen to 2.1%, the lowest since Q2 2007.

The MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, followed a similar profile. It fell from a peak of 6.5% y-o-y in Q2 2008 to 2.4% in Q1 this year. Throughout most of 2008, the headline rate was above the MAS underlying inflation rate largely because the upward revision in the Annual Values (AVs) of HDB residential properties in 2008 raised the cost of owner-occupied housing. As the AVs of HDB properties for 2009 were maintained at last year's levels, the two inflation measures started to converge again recently.

… reflecting smaller increases or outright declines in the prices of nearly all goods and services.

On a sequential q-o-q basis, CPI inflation slowed throughout 2008 and turned negative in Q1 this year. (Chart 2.11) Aside from accommodation,[3] nearly all components in the CPI recorded significantly smaller increases or outright declines in prices over the past six months. For example, food price increases have more than halved since Q3 2008. The 1.1% q-o-q decline in the CPI in Q1 2009 was led by direct oil-related items and some retail goods and services, such as cars, holiday travel packages and household durables (categorised as "Others" in Chart 2.11).

Chart 2.9
Headline CPI and MAS Underlying Inflation

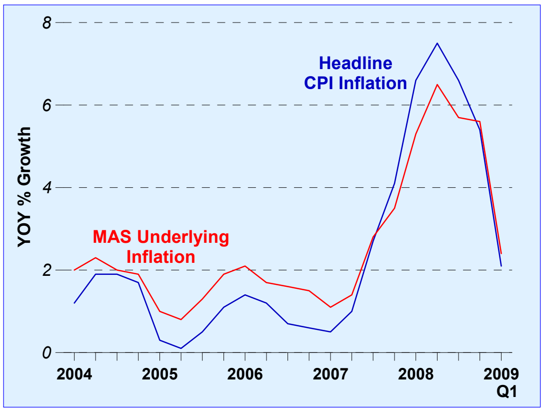


Chart 2.10
Contributions to Headline y-o-y CPI Inflation

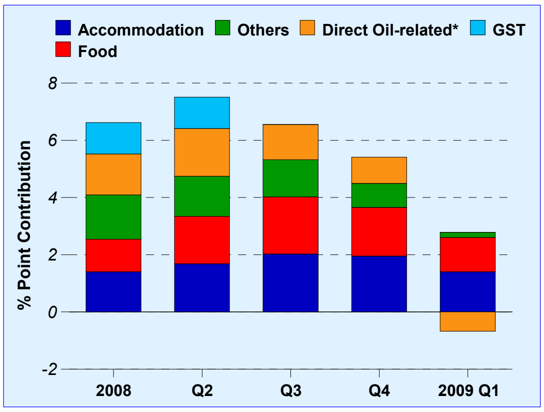
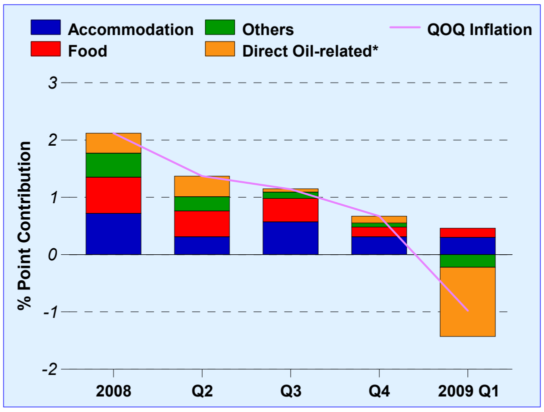


Chart 2.11
Contributions to Sequential q-o-q CPI Inflation



* Direct oil-related items refer to petrol, electricity tariffs, LPG and gas.

[3] The contribution of accommodation to sequential q-o-q CPI inflation varies with the schedule of the Service & Conservancy Charges (S&CC) rebates. In 2008, more rebates were administered in Q2 and Q4 than in Q1 and Q3.

Direct oil-related items were the main drag on CPI inflation.

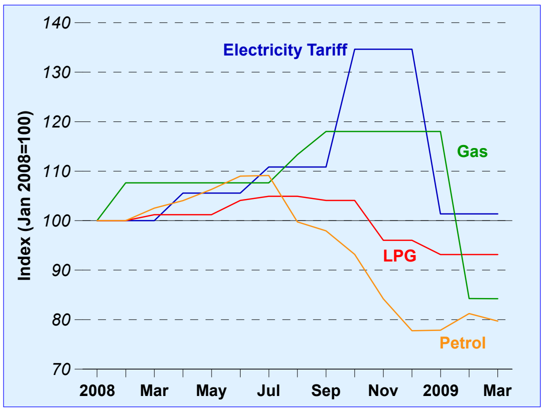
The West Texas Intermediate (WTI) global oil price plunged by almost 80% from its peak in July 2008 to a trough in December. (Chart 2.12) This emanated from the collapse in global oil demand against the backdrop of elevated prices in H1 2008 and the sharp slowdown in world economic growth in H2. The substantial cut in OPEC's production target by 4.2 million barrels per day last December arrested the fall in prices and stabilised the market somewhat in January and February this year. More recently, prices have started to rise modestly as petrol demand in the US picked up in tandem with lower pump prices, and as medium to long-term oil supply concerns rose to the fore after OPEC producers and the International Energy Agency (IEA) warned that important supply-side investments were being neglected due to low prices and the credit crisis. Nevertheless, the WTI oil price was still some 50-60% lower in April 2009, compared to a year ago.

Chart 2.12
WTI Oil Prices

Source: Bloomberg
* As at 23 April.

In tandem with these developments, domestic petrol pump prices plummeted between August 2008 and January 2009 before rising slightly in February and March. (Chart 2.13) On a year-ago basis, petrol prices were 21% lower in Q1 2009, which pulled the headline inflation rate down by 0.7% point.

Chart 2.13
Electricity, Gas, LPG and Petrol CPI



In comparison, household fuel prices adjusted more slowly to global oil prices. For example, despite oil prices having fallen sharply, electricity tariffs were further raised by 22% q-o-q in Q4 2008 before correcting thereafter.[4] Hence, in Q1 2009, electricity tariffs remained slightly higher compared to a year ago. Similarly, gas tariffs were adjusted in line with market prices of natural gas after a significant lag.

With the collapse in global oil prices, transport costs also came down recently. For example, in November 2008, taxi operators removed the fuel surcharges that were implemented in July. Similarly, air and sea fares have fallen by around 12% in March 2009 from their peak in August 2008.

[4] See footnote 7 in Chapter 3.

Food price inflation has abated, although prices remain elevated.

Global food prices also corrected in H2 2008. The UN FAO Food Price Index plunged by around 33% between June and December 2008 before stabilising in Q1 2009 as concerns over demand and supply imbalances receded. (Chart 2.14) The FAO expects the record crop harvests in H2 2008 and reduced demand caused by the global recession to lead to food production outstripping utilisation by a wide margin this year, thus allowing for a small recovery in inventories from critically low levels. Most trade restrictions imposed on some crops in the earlier part of last year have also been reversed following the bumper autumn harvests.

In line with global developments, domestic food import prices declined from its peak in September 2008, but by a much smaller magnitude of 3.8% as of February 2009, compared with the earlier run-up. (Chart 2.14) This slower and more muted adjustment could be due to contractual agreements and the use of hedging contracts.

The modest fall in food import prices, coupled with the rise in domestic business costs in H2 2007 and 2008, led to an increase in retail food prices in Q1 2009, although the increase was far more moderate compared to the second half of last year. After adjusting for the seasonal effects of Chinese New Year, sequential consumer food price inflation eased to 0.3% in Q1 2009 from an average of 2.0% between Q3 2007 and Q4 2008.

Among the non-cooked food items, the prices of rice & cereals and cooking oils & fats, both of which have the highest commodity content, fell in recent months. (Chart 2.15) The prices of vegetables and fruits also retreated due in part to recent favourable weather in the region. In comparison, the prices of meat and poultry continued to rise as producers pass on the higher cost of animal feeds.

On a year-ago basis, CPI food inflation moderated to 5.0% in Q1 2009 from a high of 9.2% in June 2008 and 7.8% for the whole of 2008. Nonetheless, food prices remained relatively high and added 1.2% points to headline inflation in Q1 2009.

Chart 2.14
UN FAO Food Price Index and Domestic Food Import Price Index

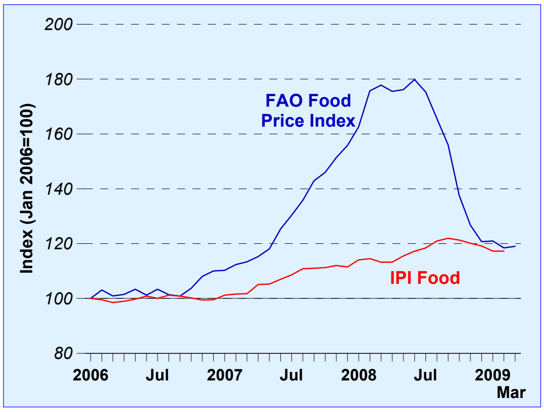
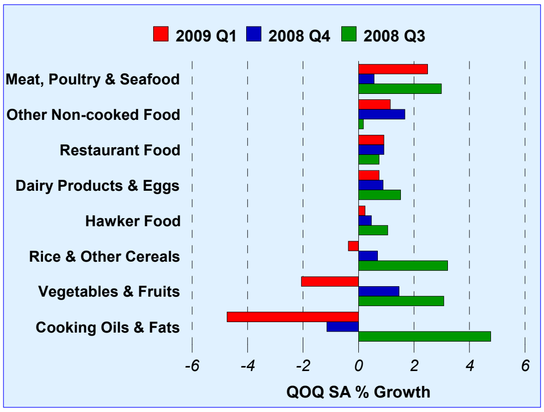


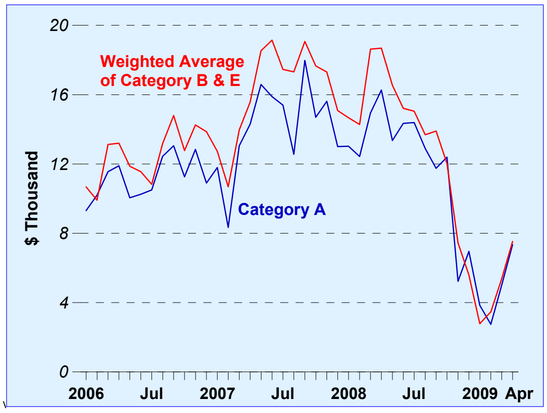
Chart 2.15
Increases in Food CPI



Weaker consumer demand led to price declines in some goods and services …

Aside from direct oil-related items, the prices of a number of consumer goods also fell in line with the deteriorating economic environment and negative consumer sentiment. For example, the cost of cars was particularly weak, owing to the 90% plunge in COE premiums between November 2008 and February this year, as well as the discounts offered by dealers to spur demand. (Chart 2.16) Holiday travel expenses were also lower as airlines and hotels worldwide slashed rates and local tour operators offered large discounts during the recent travel fairs.

Chart 2.16
COE Premiums



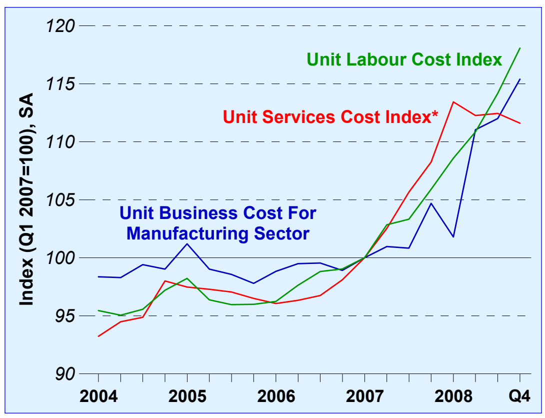
… although the prices of some services rose after the step-up in business costs last year.

Notwithstanding the economic downturn, the prices of some services continued to rise following the run-up in business costs in 2007 and most of 2008. For example, telecommunication costs increased significantly in January, as fixed-line subscription fees and call charges were hiked for the first time in 18 years, by 10% and 15% respectively. Higher cost of labour and copper were the main factors behind the revision. Some types of health care costs also escalated in Q1 2009, including the cost of dental treatment and medical health insurance.

The cost of labour and utilities continued to rise in Q4 2008.

Business costs remained high even in Q4 2008. Both the Unit Business Cost Index (UBCI) and Unit Services Cost Index (USCI) – EPD's internal gauge of cost pressures in the services sector – were around 12-15% higher in Q4 2008 than at the beginning of 2007. (Chart 2.17) Although the USCI eased slightly in H2 2008, this was due largely to the collapse in global freight rates and charter fees, as well as lower government fees and taxes. The cost of other components in the USCI, including utilities and labour, continued to rise. Notably, the Unit Labour Cost (ULC) rose even more sharply in H2 2008 compared to earlier quarters as productivity fell further due to the significant contraction in real GDP and the lagged adjustment of the labour market to the economic downturn.

Chart 2.17
Unit Cost Indices



* EPD, MAS estimates